

# Economic & Revenue Outlook

Presented to  
Senior Management, Department of Health

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July 27, 2010  
Olympia, Washington



**WASHINGTON STATE**  
**ECONOMIC AND REVENUE FORECAST COUNCIL**



# Summary

- There is evidence that the economic recovery stumbled in May – we are now predicting near-term weakness, but a continuing recovery
- The downside risk to the forecast have increased, however
  - Weak employment reports in May and June
  - Weak retail sales report in May and June
  - Fears of European contagion
- Other risks are the same as before
  - Downside: weak construction; community banks; tight credit for small business
  - Upside: exports; aerospace; software



# At this stage in 1981-82, the state economy had made up all of the job losses

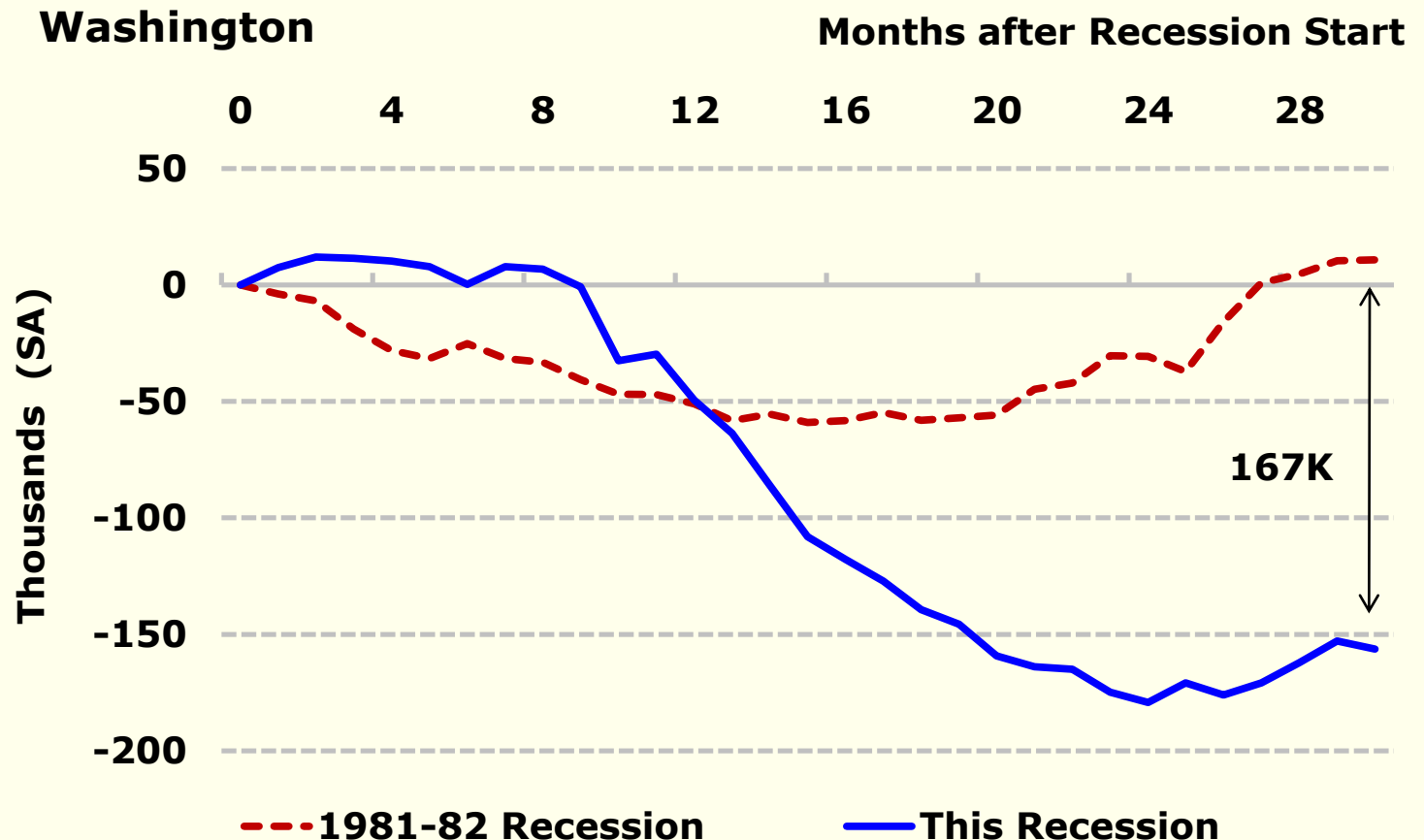
Peak to  
trough job  
losses

**1981-82:**

2.9% of  
labor force

**This time:**

5.1% of  
labor force

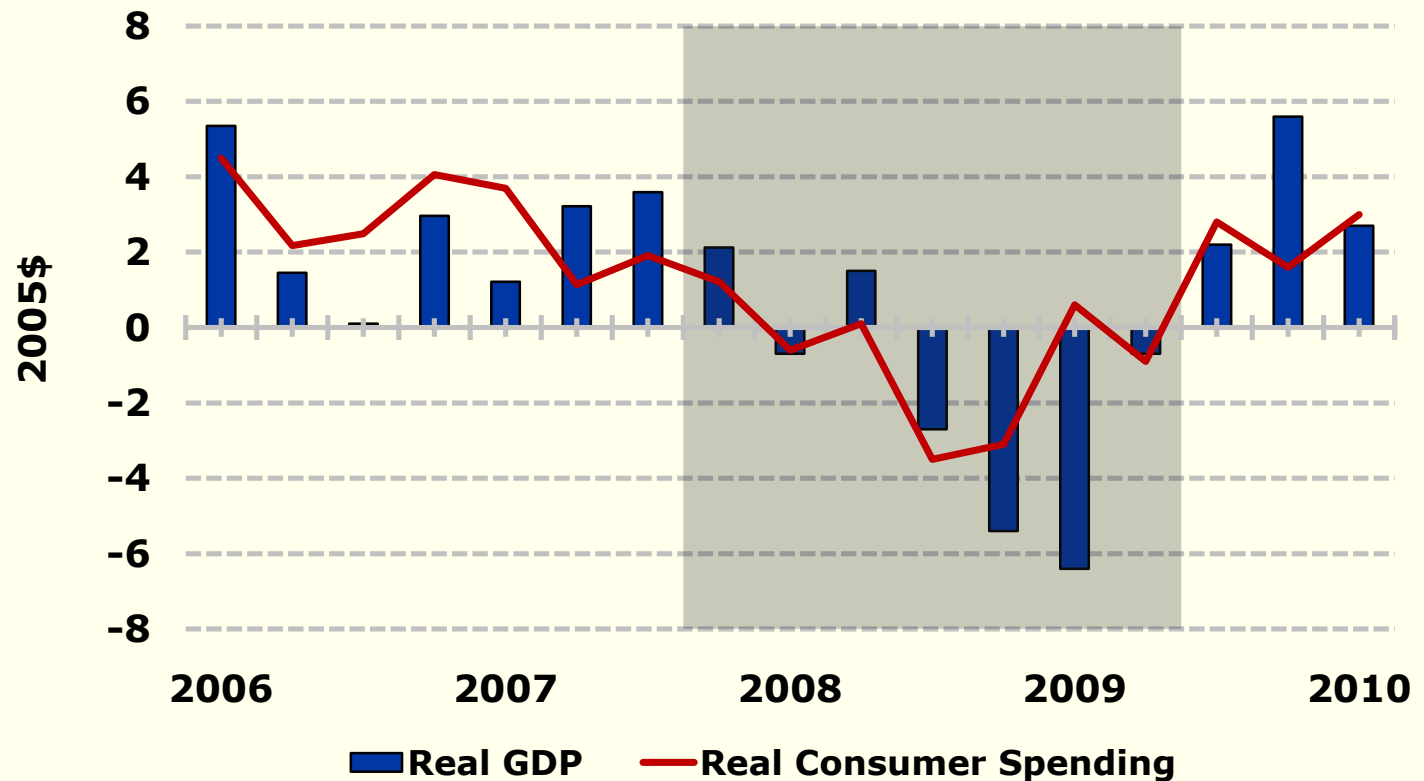


Source: WA State ESD, ERFC; data through June 2010



# We have had 3 consecutive quarters of GDP and consumer spending growth

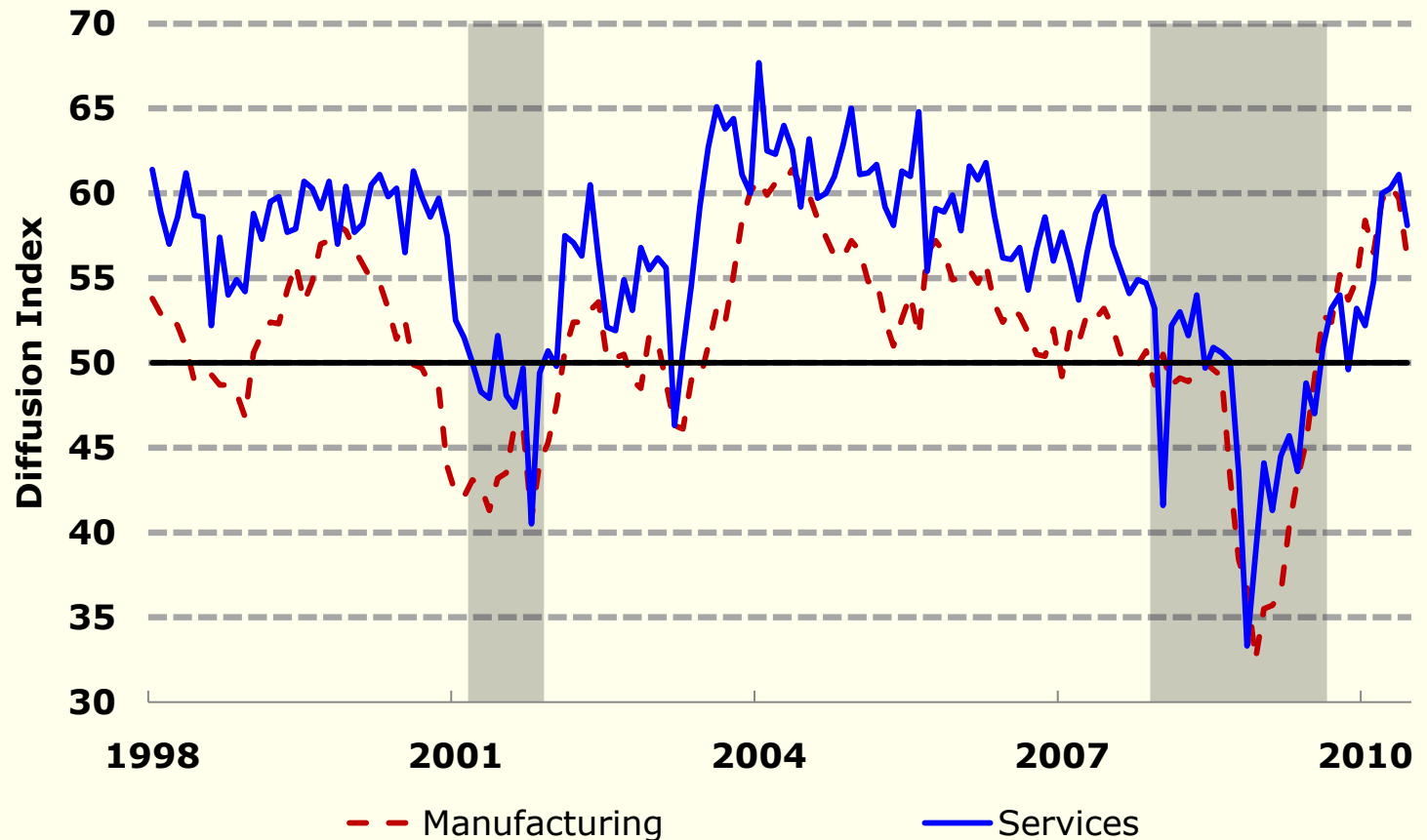
Percent growth, SAAR





# ISM indices for both services and manufacturing indicate growth

An index greater than 50, implies growth

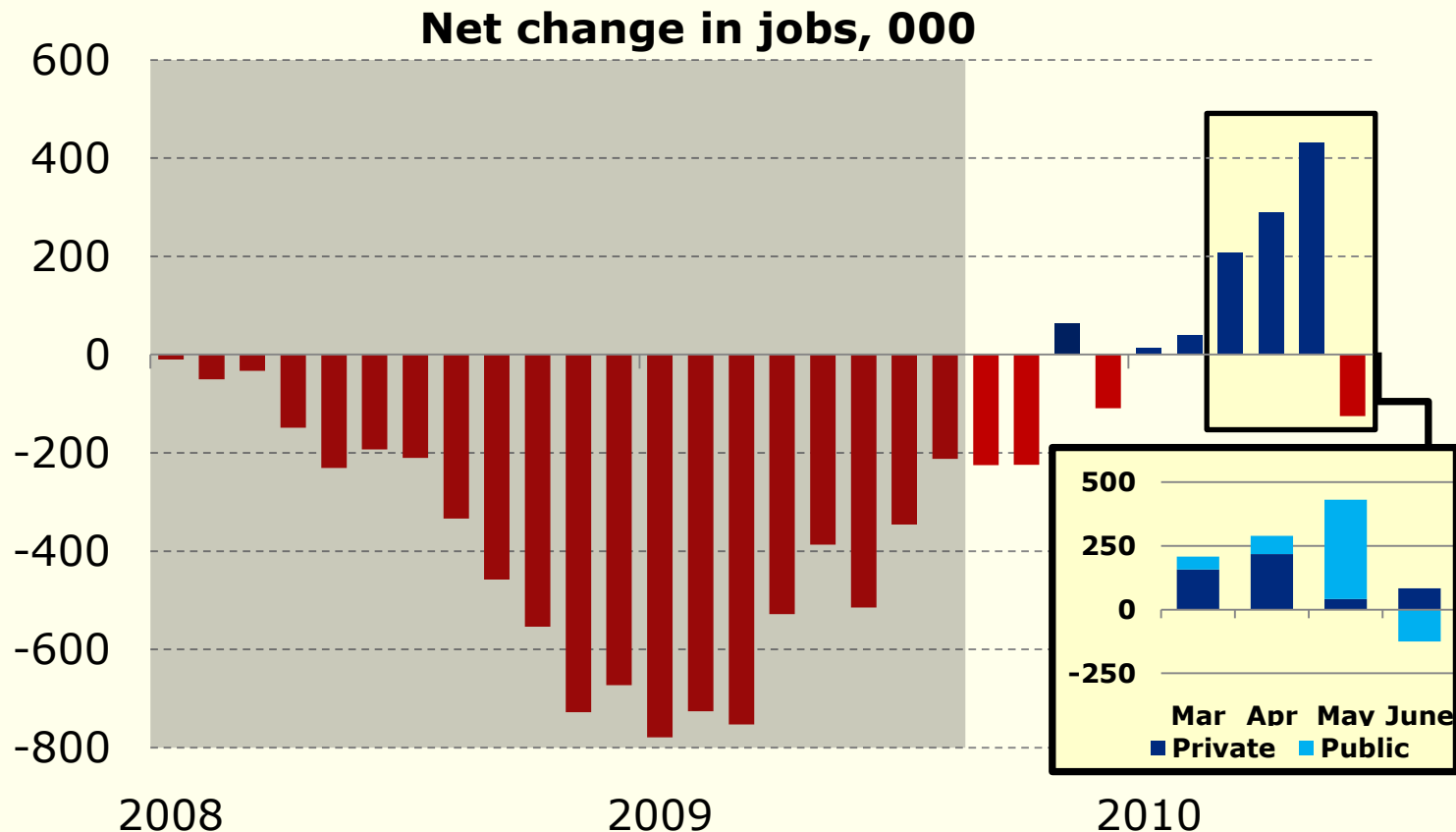


Source: Institute of Supply Management; data through June 2010



# The jobs recovery stalled in May, and remains weak in June

Only 33,000 private sector jobs were added in May, down from 218,000 in April



Source: BLS; data through June 2010

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# Fears of European contagion appear to be subsiding

This index is a proxy for fear and uncertainty in markets



Source: Yahoo Finance; data through July 19, 2010

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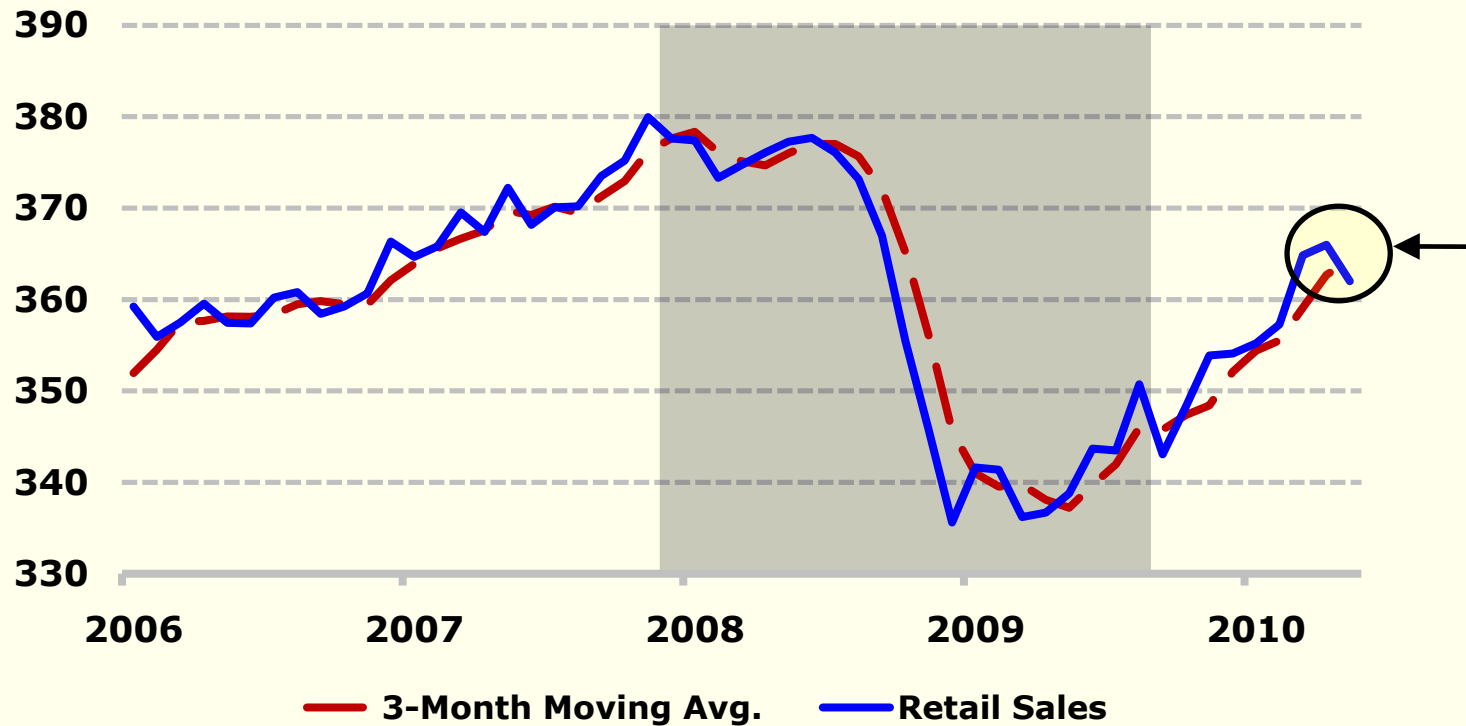
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# Retail sales fell in May and June

**U.S. Retail Sales and Food Services**  
**USD, billions**



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Source: U.S. Census Bureau; data through June 2010

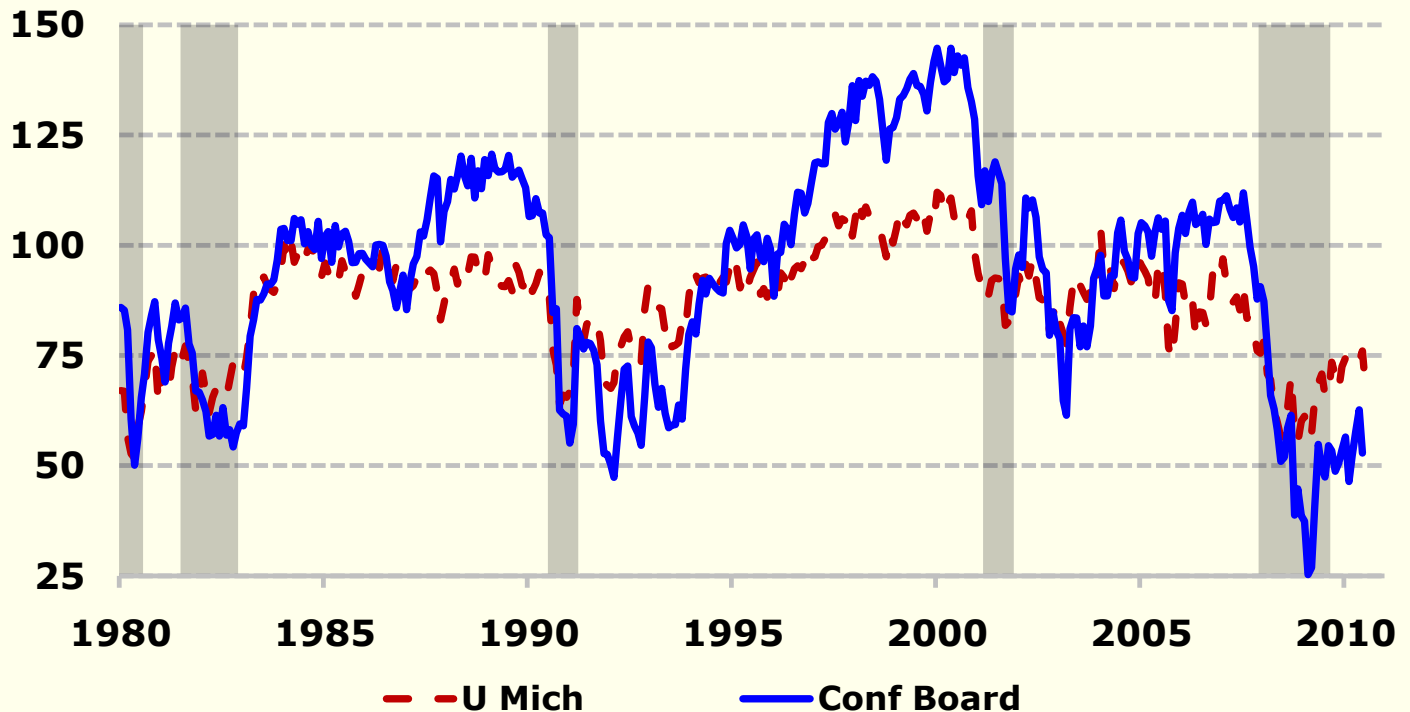


# Consumer confidence is improving, but slowly

**Index**

**Mich: 1966Q1 = 100, SA**

**Conf Board: 1985 = 100, SA**



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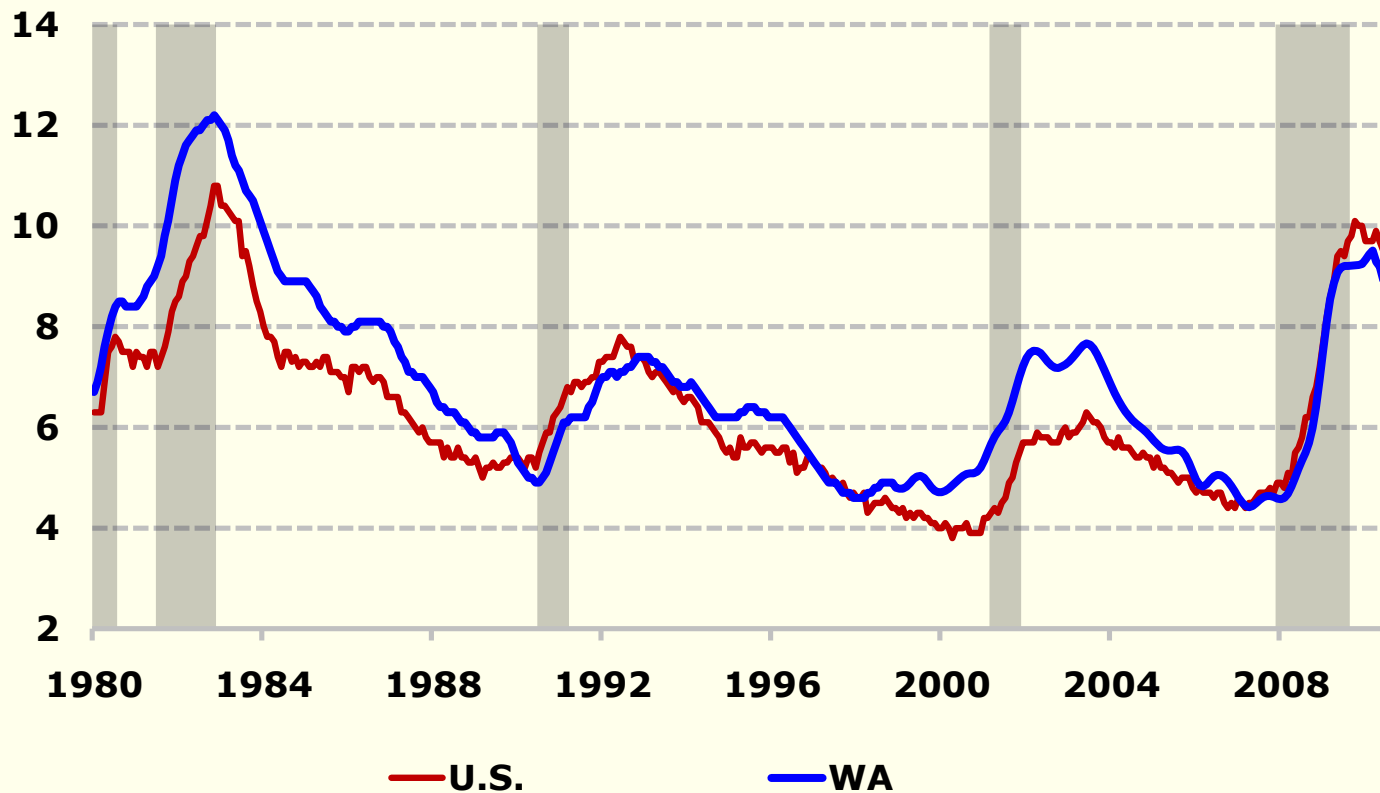
Source: University of Michigan; Conference Board, data through July 2010



# Unemployment is still high

It is normal for this rate to continue to rise even after the economy is in recovery

**Unemployment Rate, Percent, SA**



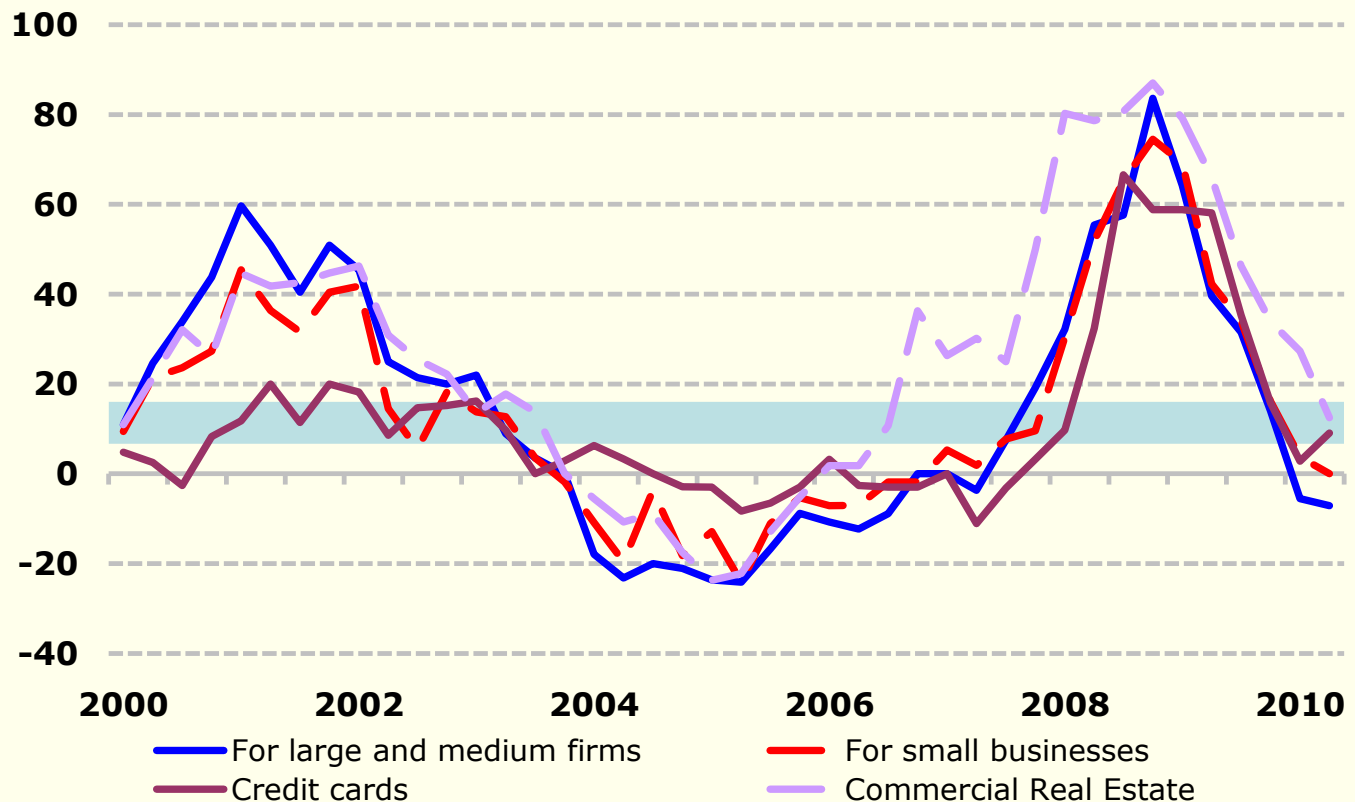
Source: WA ESD, BLS; data through June 2010



# Large bank lending appears to be easing

Survey includes 60 large domestic banks and 24 U.S. branches of foreign banks

## Net Tightening minus Easing Percent



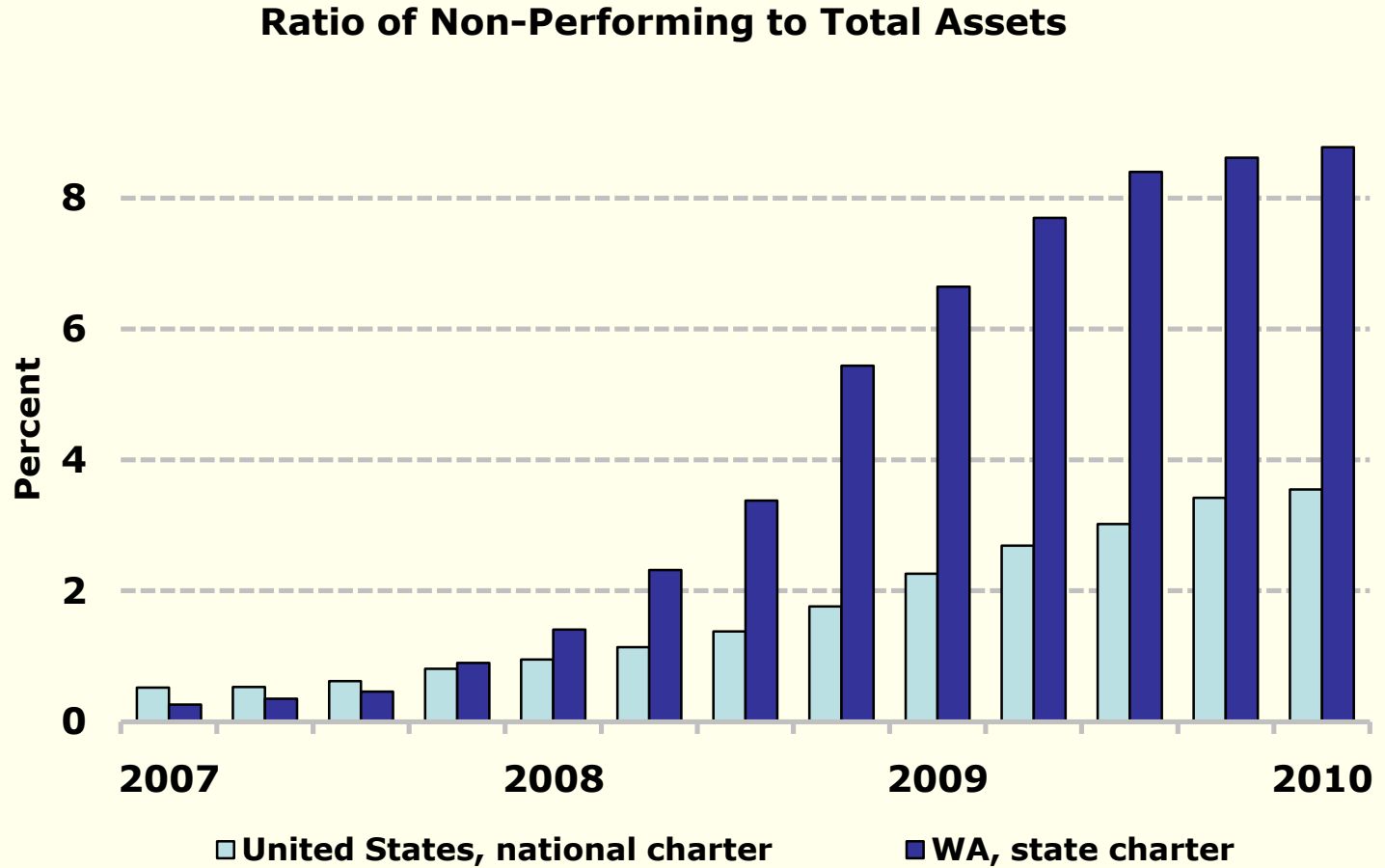
Source: Federal Reserve Board, Senior Loan Officers Quarterly Survey; data through April 2010 survey

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# Asset quality of regional banks is poorer, but leveling off

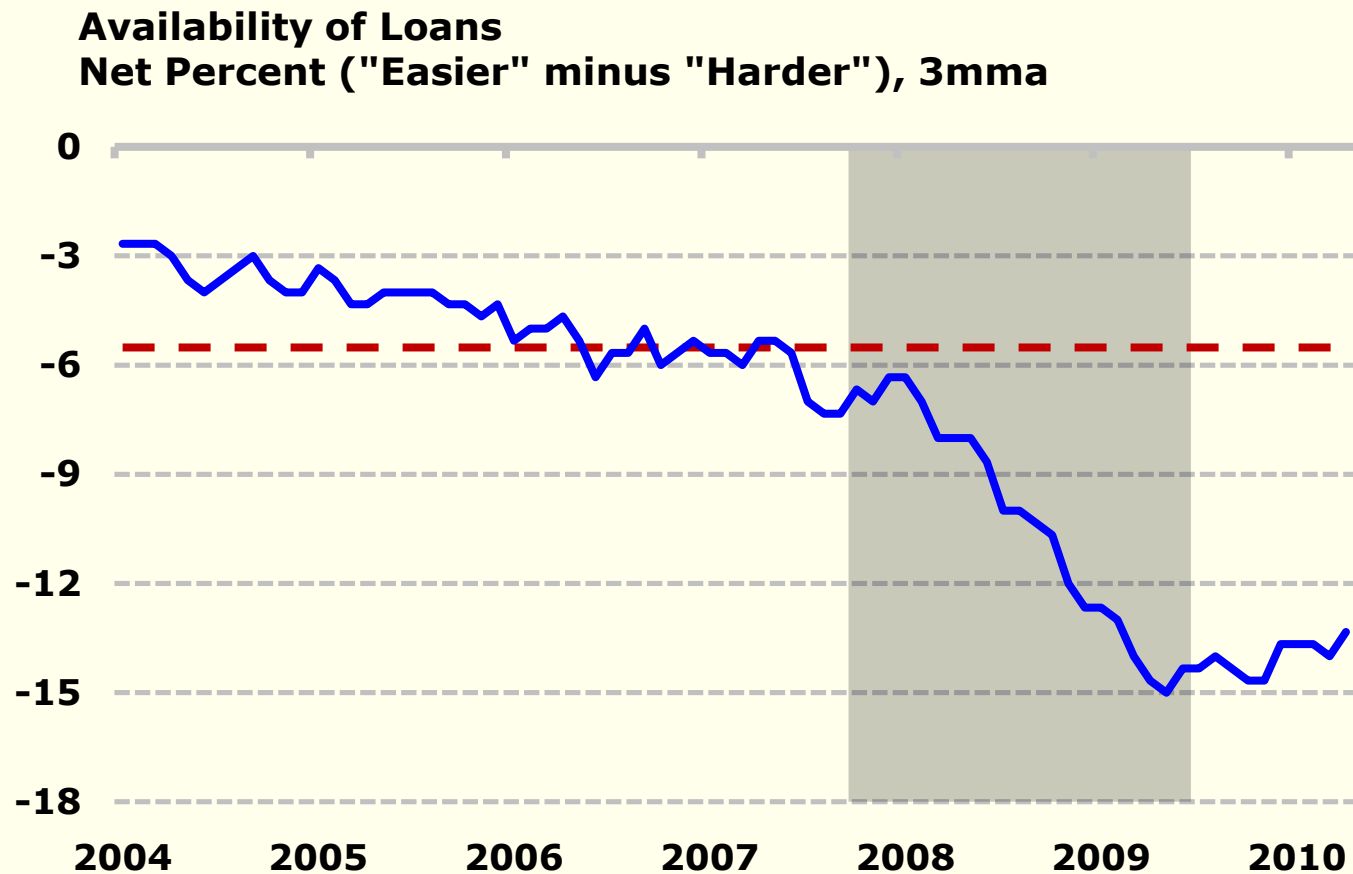
The poorer asset quality of regional banks is due to their disproportionately high exposure to commercial real estate



Source: FDIC, data through 2010 Q1



# Credit conditions remain tight for small business

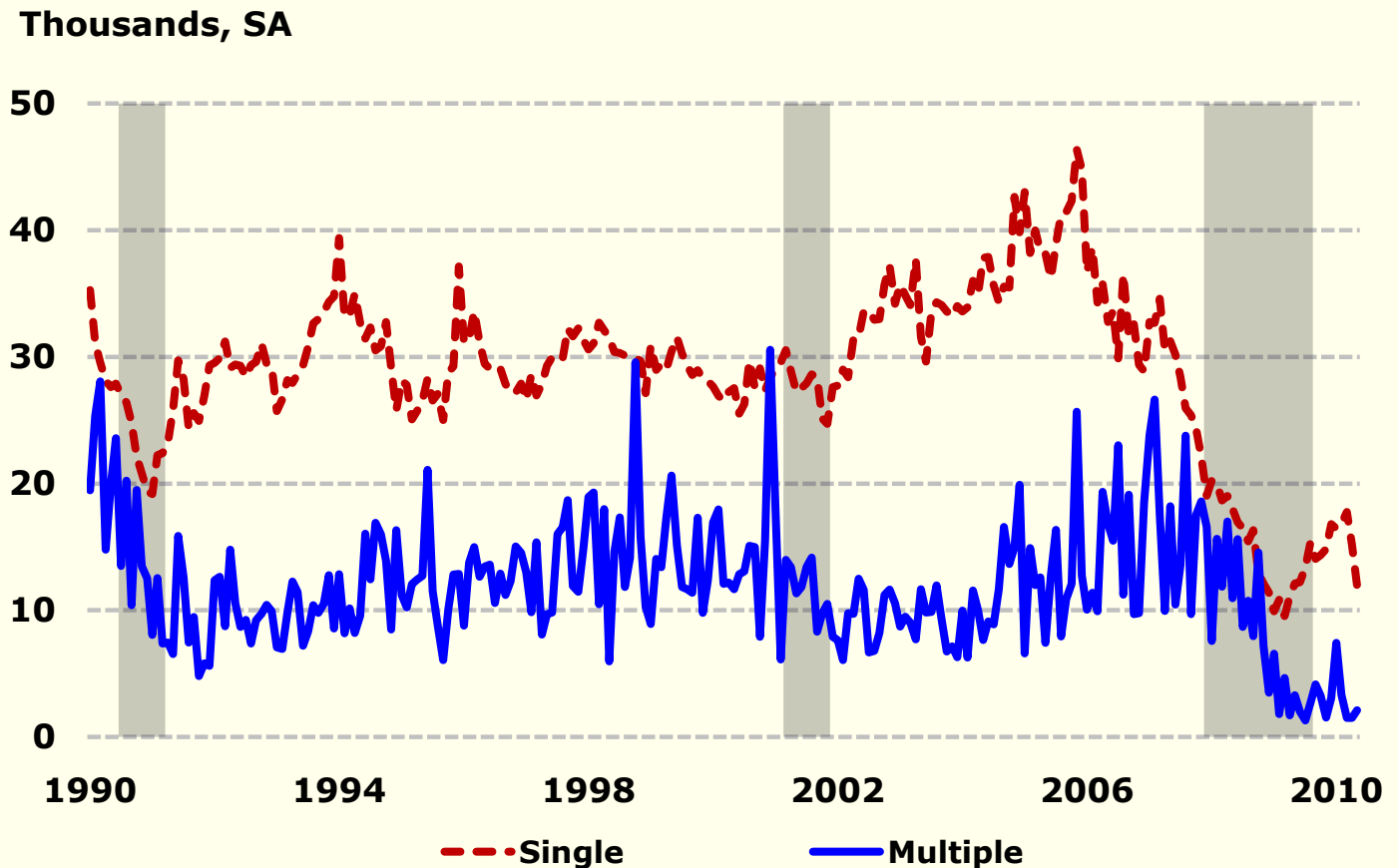


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Source: National Federation of Independent Business; data through June 2010



# WA single family housing has collapsed, now that the first time homebuyer tax credit has expired

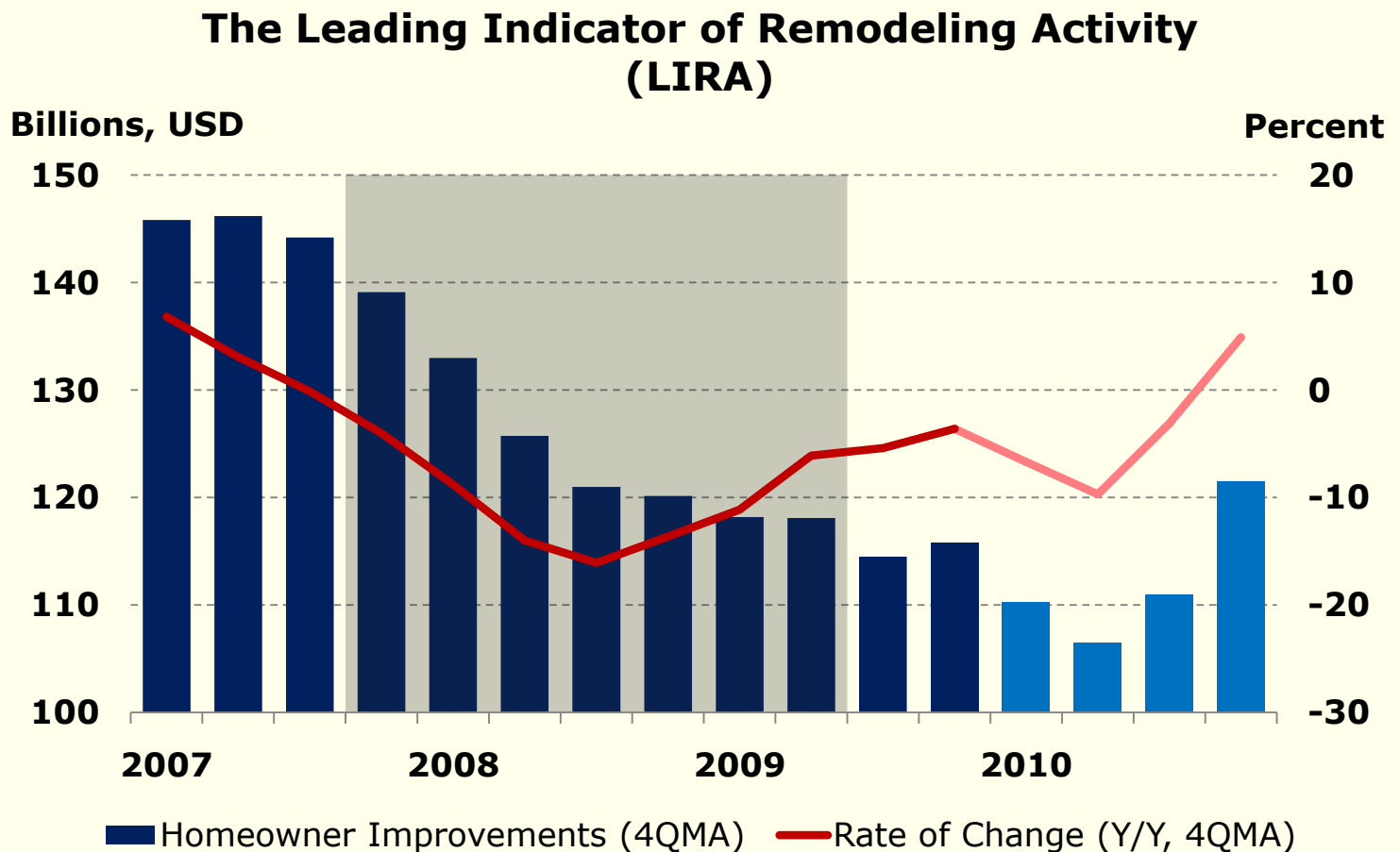


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Source: U.S. Census Bureau; data through May 2010



# Leading indicator suggests remodeling improvement in 2010

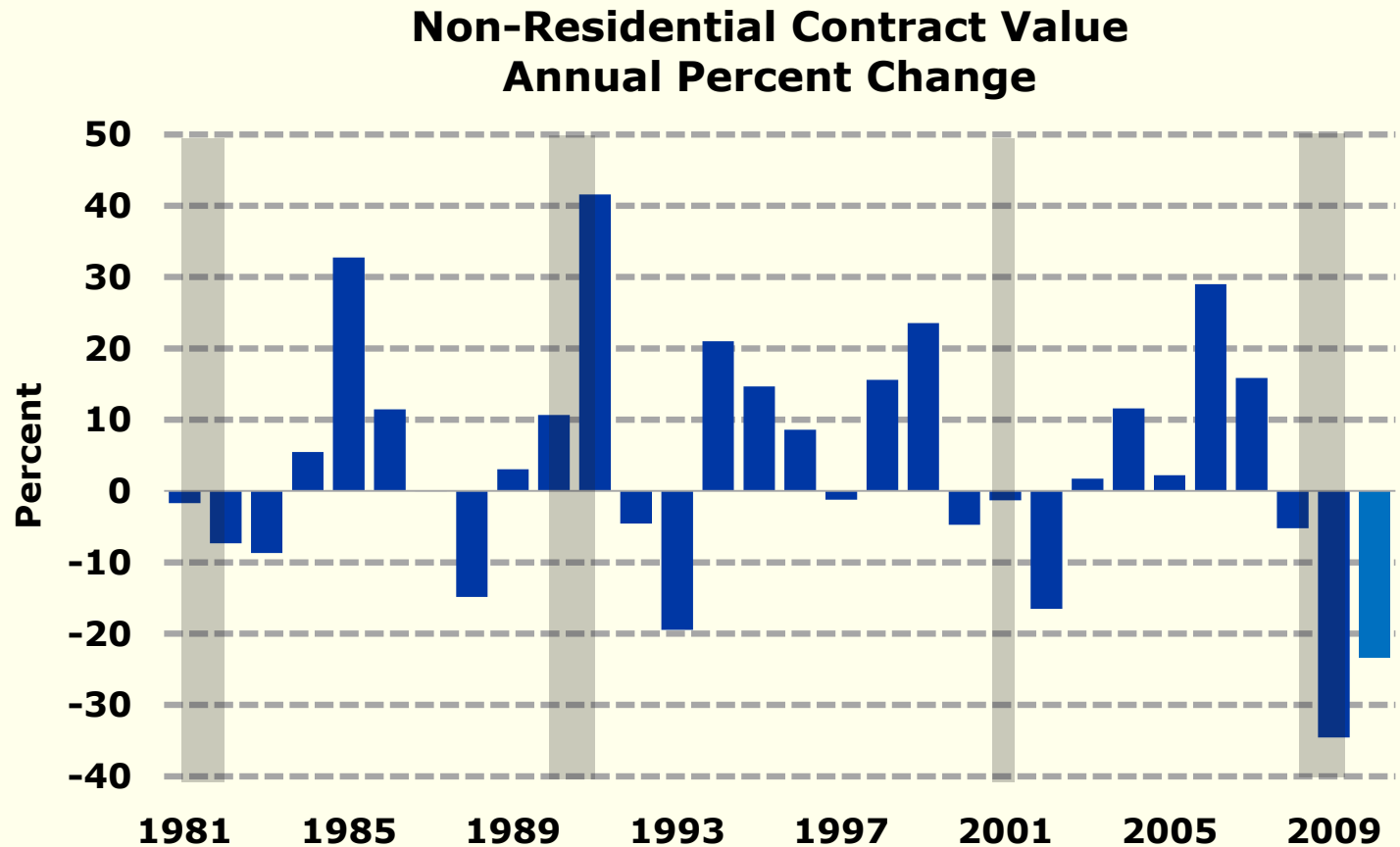


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Source: Joint Center for Housing Studies of Harvard University, actual data through 2009 Q4



# This is the worst downturn in non-residential construction in 30 years

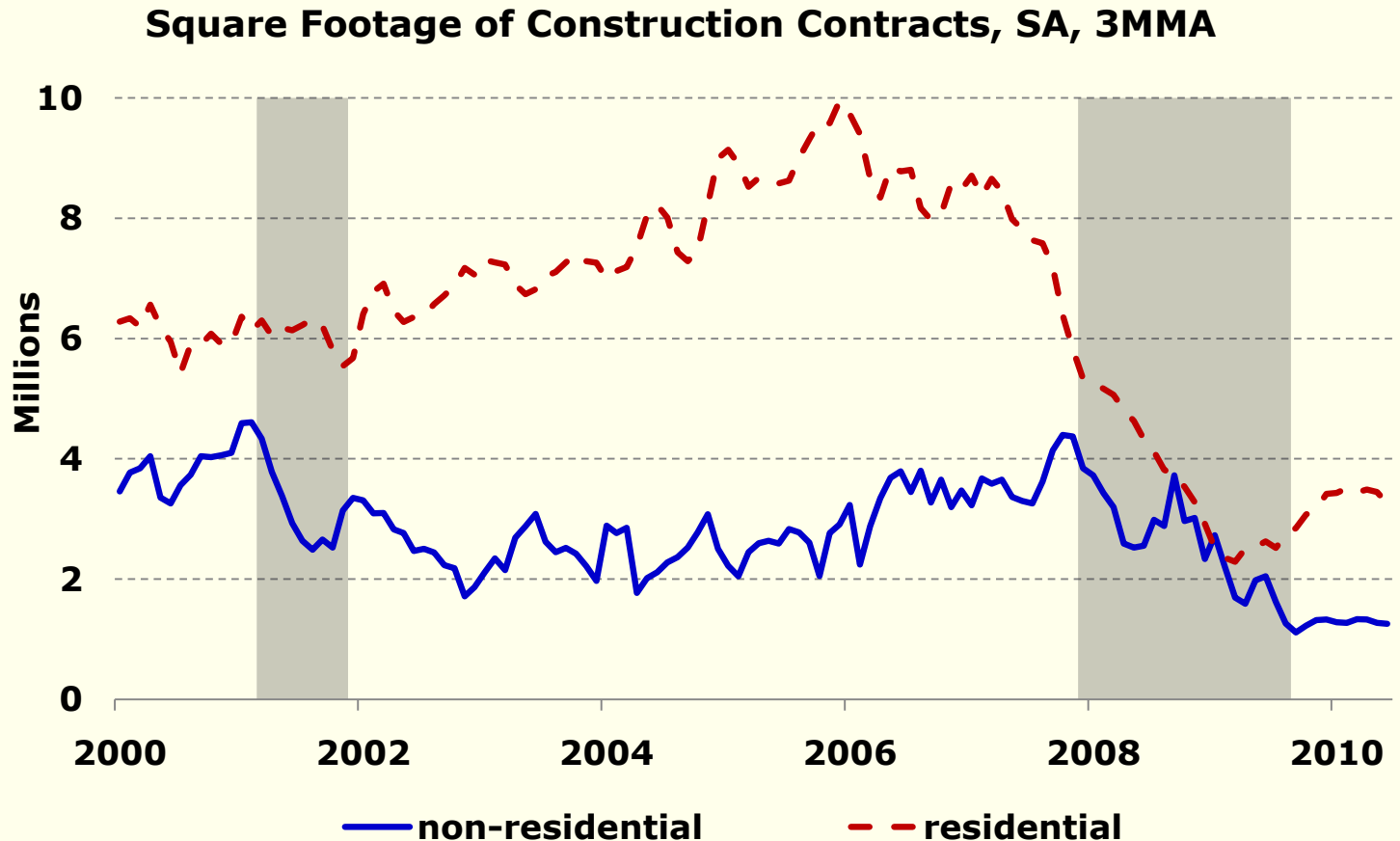


Source: McGraw-Hill Construction, data through June, 2010



# New construction in WA is no longer in free-fall, but the recovery will be weak

Residential square feet is up 55% since reaching a trough in Jan 2009



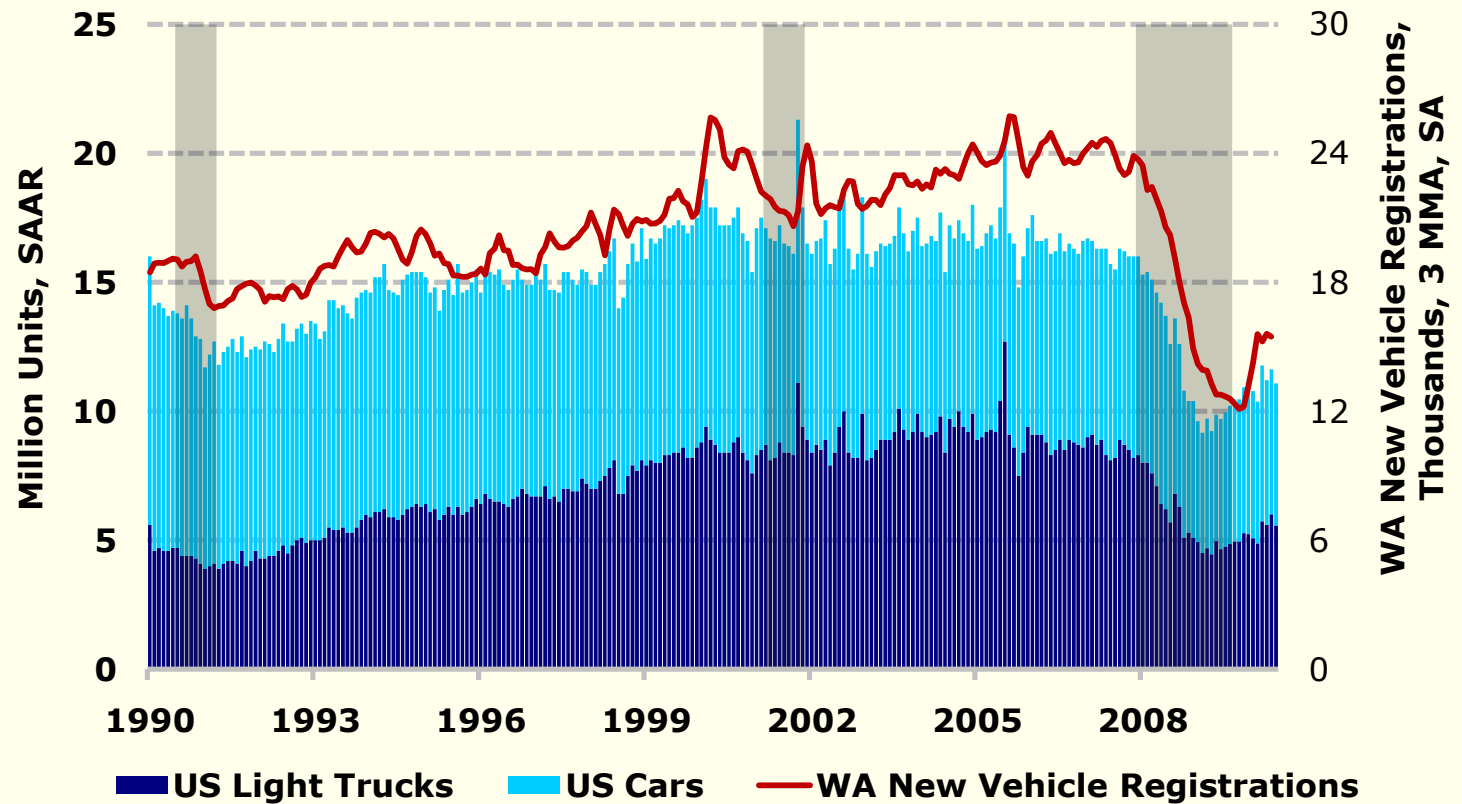
Source: McGraw Hill Construction, ERFC; data through June 2010



# Automotive sales continue to improve

National car sales were 19% higher in May 2010 than in May 2009

**Cash for Clunkers effect removed**



Source: Autodata Corporation, WA DOL; data through June 2010

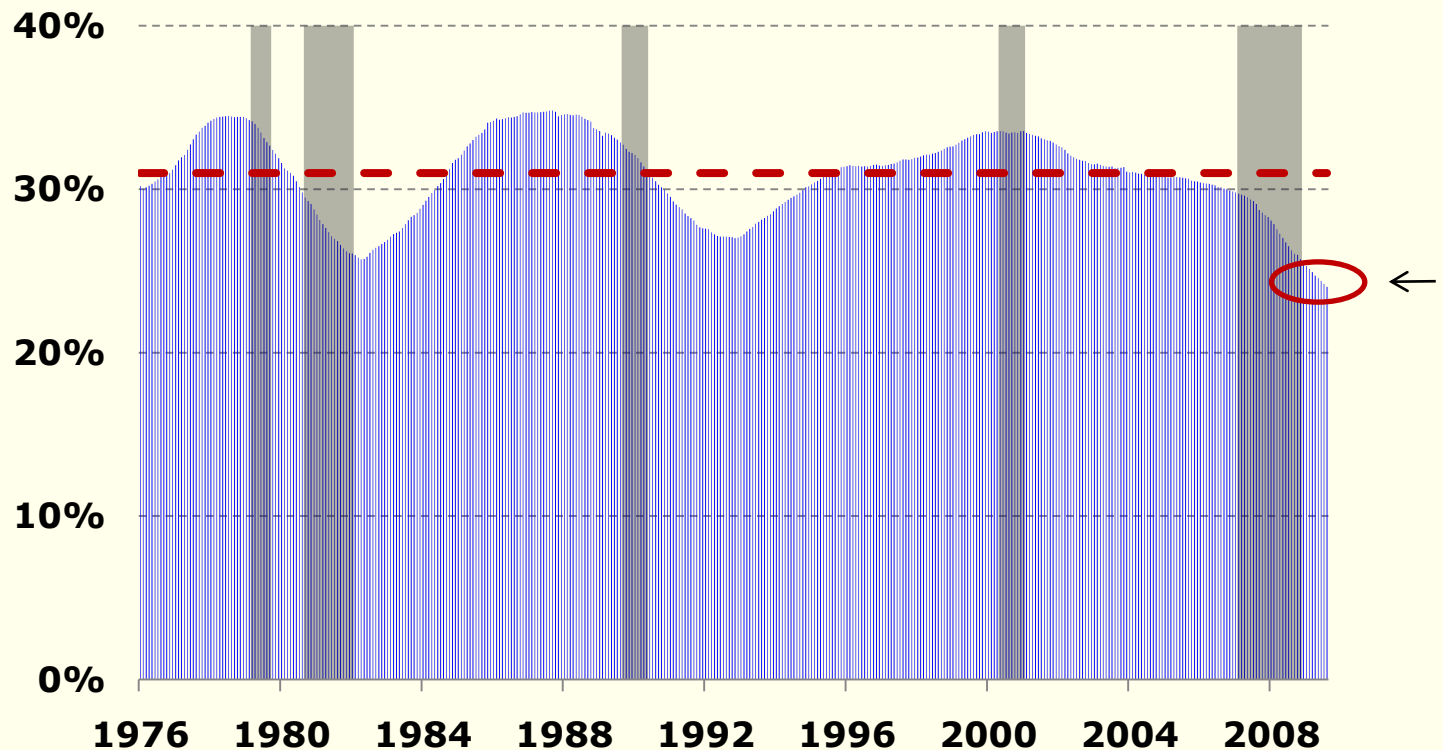
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# Relative age of the car fleet indicates continued turnaround in car sales

The percent of "old" cars on the road is at a historic high

**U.S. LMV Sales: Ratio of 36/120 Months**



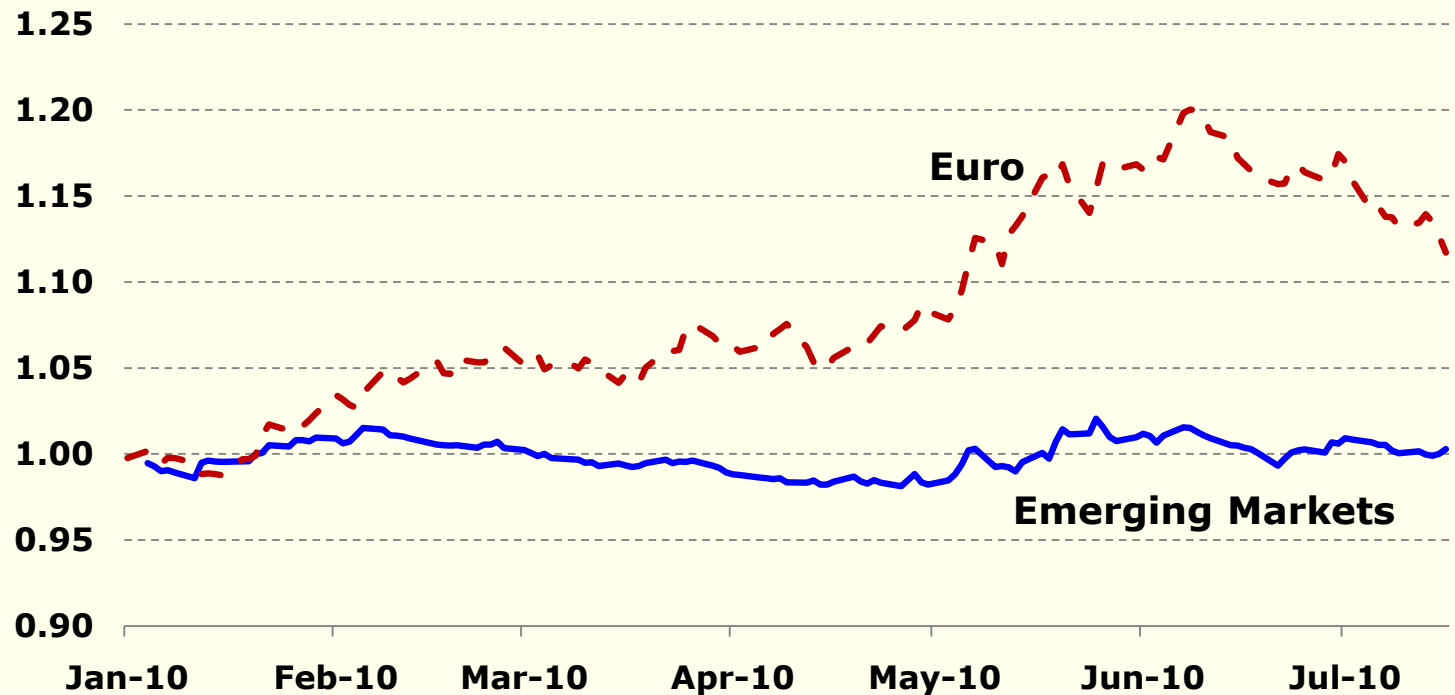
Source: Autodata Corporation, ERFC; data through June 2010



# The USD has appreciated against the EUR this year, but not against emerging market currencies

## U.S. Dollar versus select currencies

Index, Dec. 31, 2009 = 1.0



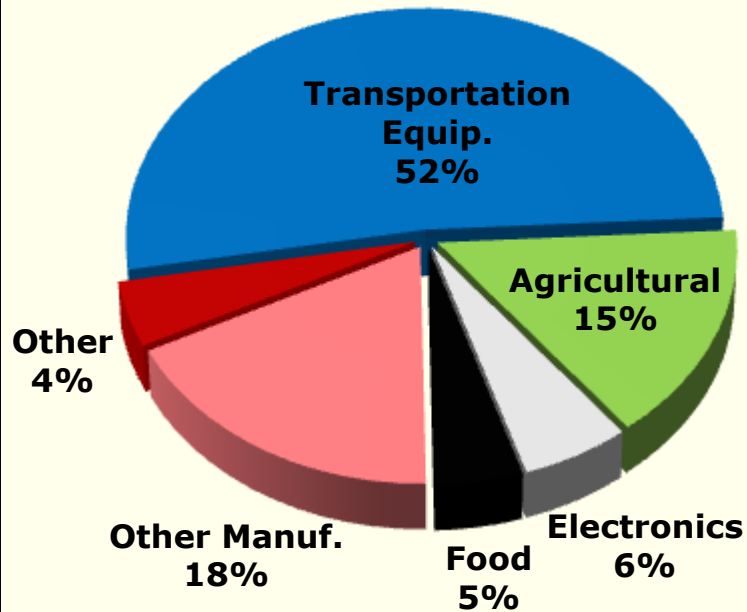
Source: US Federal Reserve Bank, ERFC; data through July 16, 2010



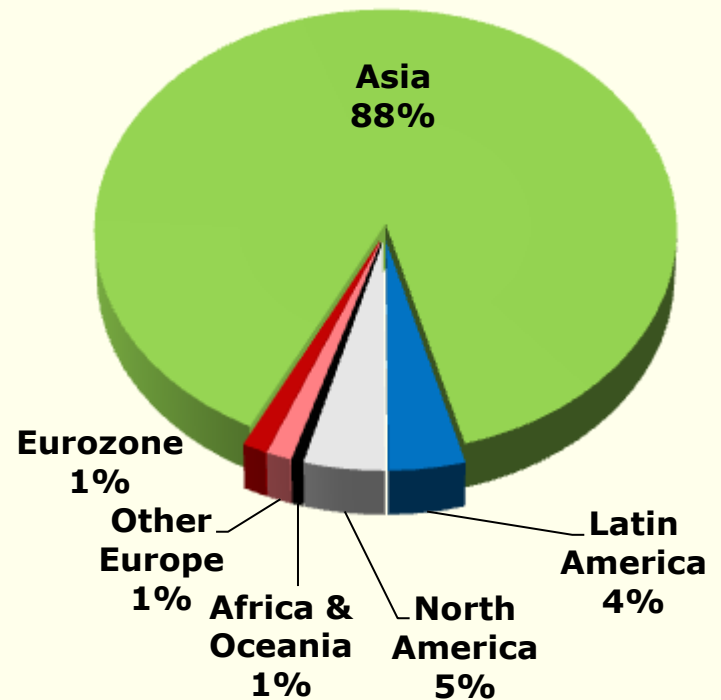
# Washington exports much more to Asia than Europe

2009

## By Industry



## Agriculture



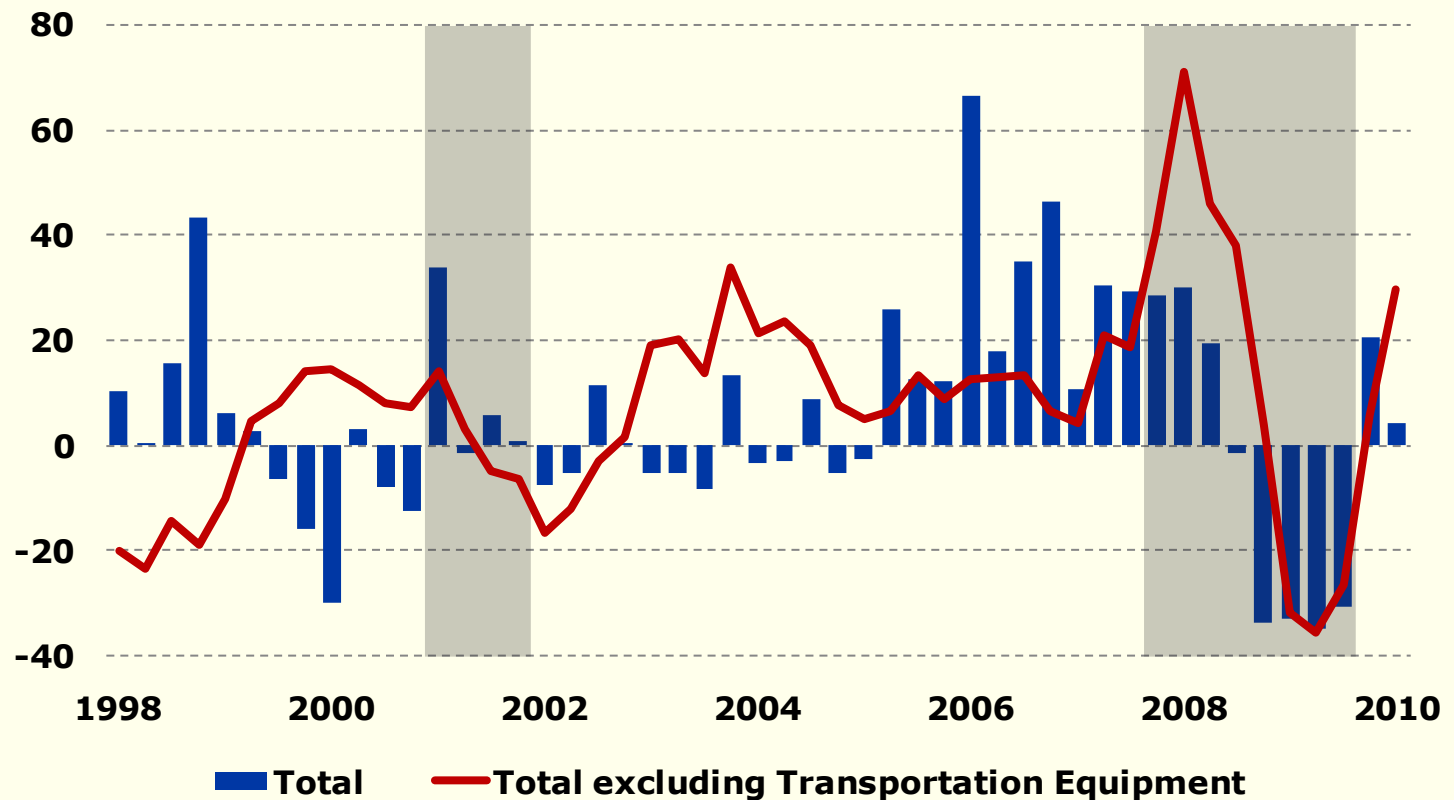
Source: Wiser Trade Data



# Exports will help the state recover faster than the nation

Exports excluding transport equipment were up 30% in Q1

**Exports**  
**Percent Change, year ago**



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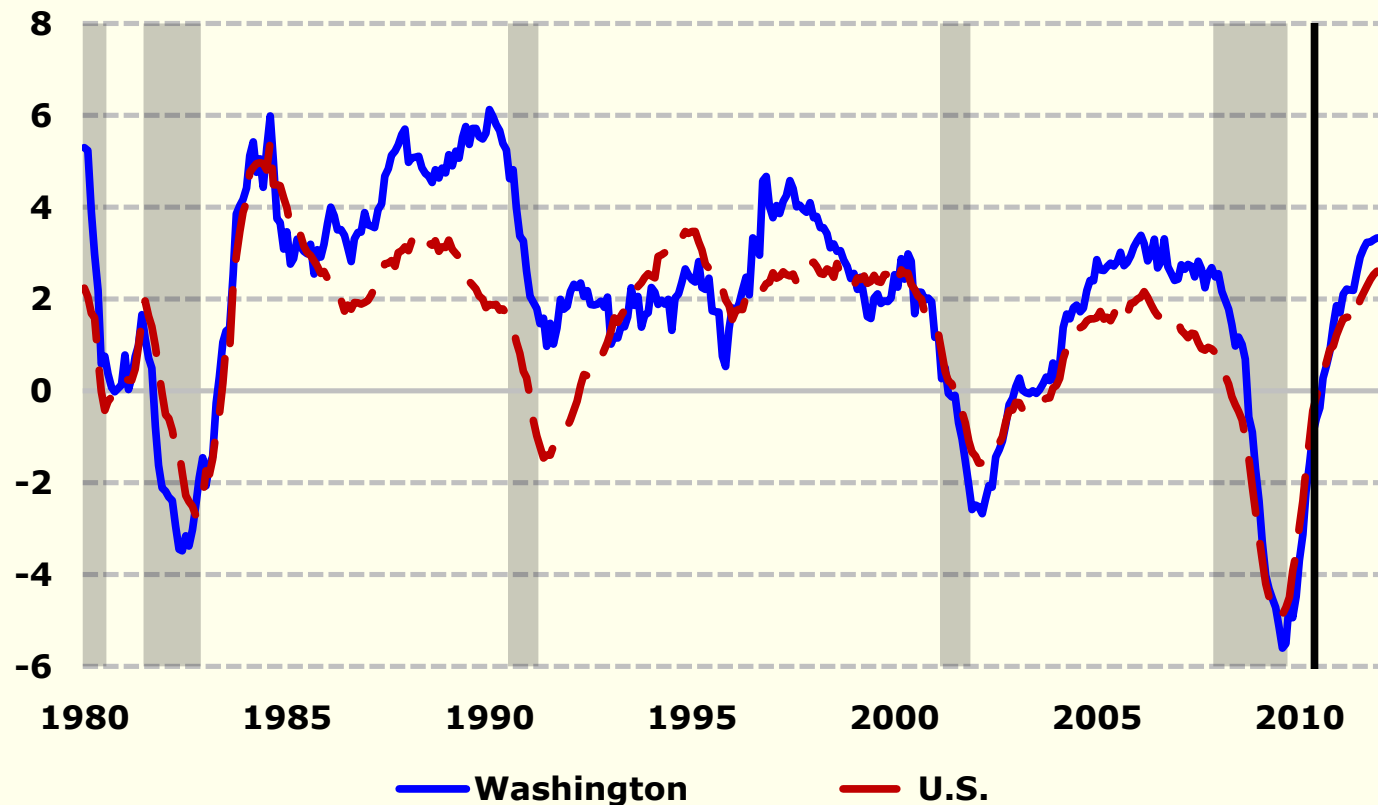
Source: Wiser Trade Data; through 2010 Q1

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# WA employment lagged the nation in the downturn and will recover stronger than the nation

Percent change, year ago

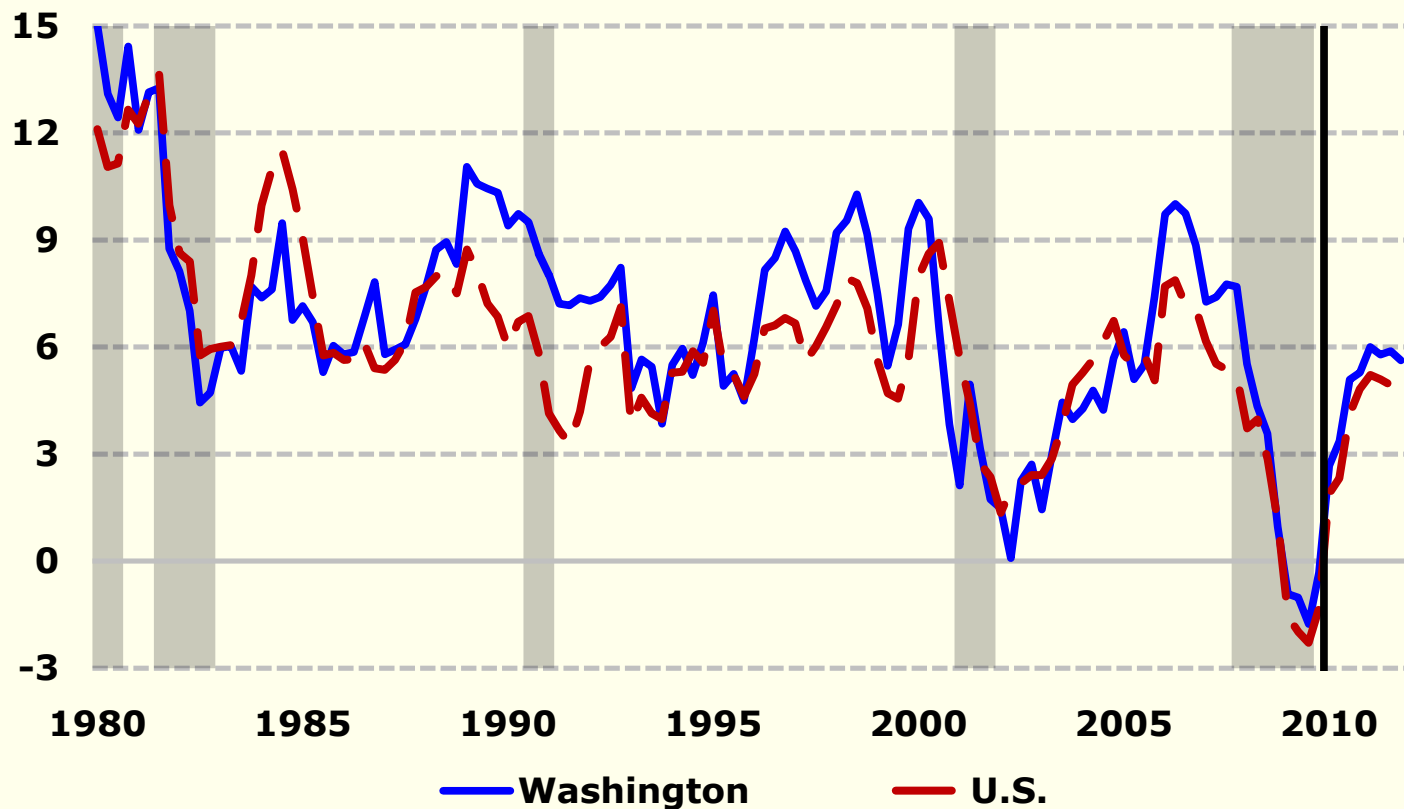


Source: ERFC June 2010 forecast; actual through June 2010



# The recovery in WA personal income growth is expected to be better than the nation's

Percent change, year ago



Source: ERFC June 2010 forecast; actual data through 2010Q1



# Forecast changes: General Fund State, 2009-2011 Biennium

**February  
Forecast:**

**\$28,725  
million**

**USD  
millions**

	<u>Collection Experience</u>	<u>Non- economic Change</u>	<b>June '10 Forecast</b>		<u>Total Change*</u>
			<u>Forecast Change</u>	<u>Forecast</u>	
Dept. of Revenue	(\$34)	\$749	(\$159)	\$27,802	\$556
All other agencies	(\$5)	\$54	(\$47)	\$1,481	\$1
<b>Total GF-S</b>	<b>(\$39)</b>	<b>\$803</b>	<b>(\$207)</b>	<b>\$29,282</b>	<b>\$558</b>

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\* Detail may not add to total due to rounding



# Forecast changes: General Fund State, 2011-2013 Biennium

USD Millions

USD millions	June '10 Forecast				
	<u>February 2010 Forecast</u>	<u>Non- economic Change</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change*</u>
Dept. of Revenue	\$30,658	\$1,556	\$219	\$32,433	\$1,774
All other agencies	\$1,566	\$105	(\$21)	\$1,650	\$84
<b>Total GF-S</b>	<b>\$32,225</b>	<b>\$1,661</b>	<b>\$197</b>	<b>\$34,083</b>	<b>\$1,858</b>

\* Detail may not add to total due to rounding

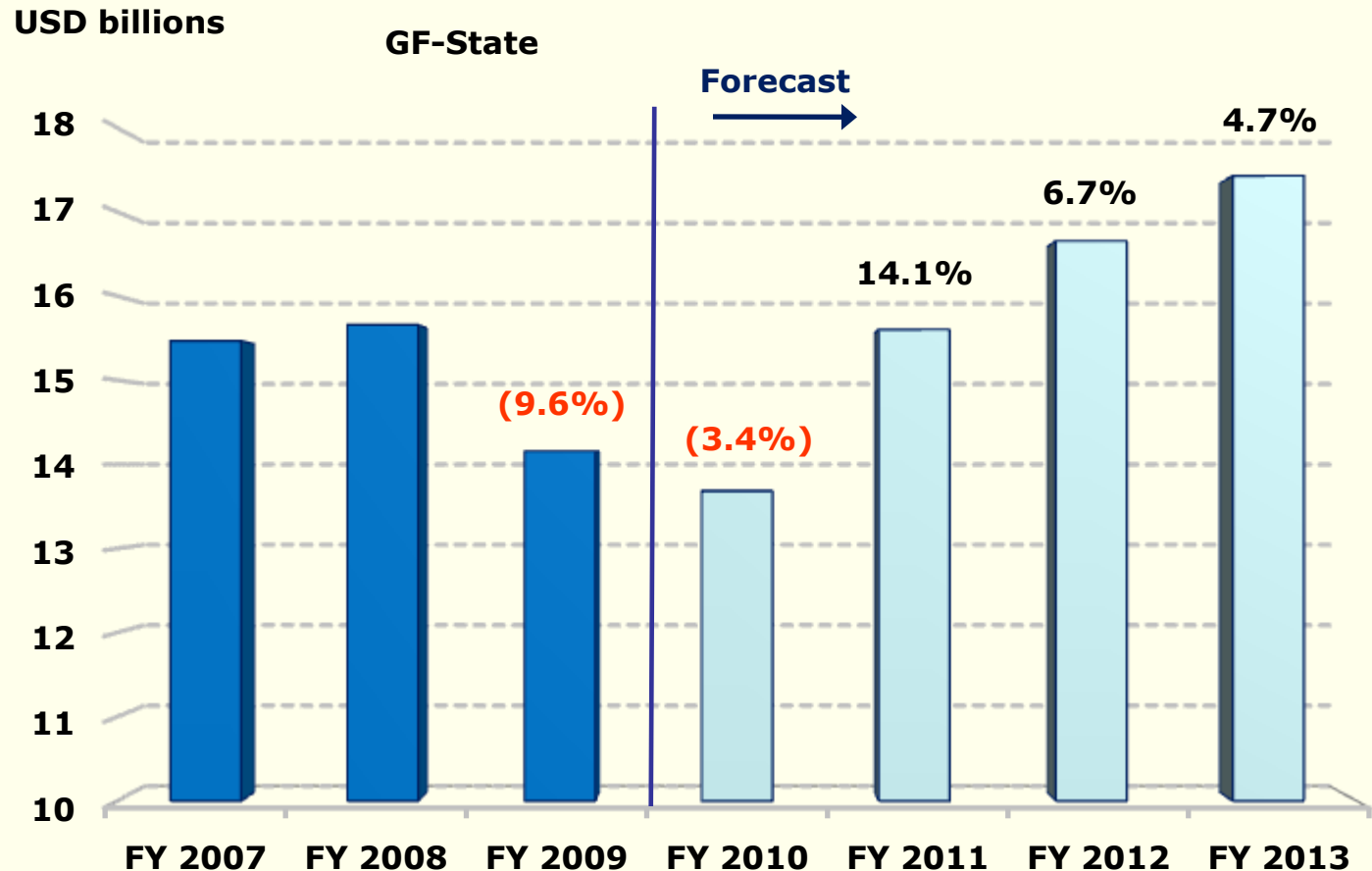


# General Fund\* forecast by fiscal year

\* General Fund & Related Funds for FY 07, 08, and 09

General Fund – new definition, for FY 10-13

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Source: ERFC forecast, June 2010; includes impact of legislative changes



# Conclusion

## Pluses

- Recovery in progress
- Evidence of pent up demand
- Job growth has returned
- Car sales are improving
- Large banks able to extend credit

## Minuses

- Weak May, neutral June
- Weak consumer confidence
- Credit still tight for small business
- Slow recovery in construction
- Possibility of European contagion

- Excluding non-economic factors the forecast shifts \$200 million from this biennium to the next



# Questions



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